

The May Department Stores Company Annual Report 1991

MAY

The May Department Stores Company is the largest department store retailer in the country, operating quality department store companies nationwide. Our companies and their headquarters are Lord & Taylor, New York City; Hecht's, Washington, D.C.; Foley's, Houston; May Company, California, Los Angeles; Famous-Barr, St. Louis; Kaufmann's, Pittsburgh; Robinson's, Los Angeles; Filene's, Boston; G. Fox, Hartford; May Company, Ohio, Cleveland; May D&F, Denver; and Meier & Frank, Portland, Ore.

Each department store company holds a leading position in its region, and our 12 companies serve combined market areas totaling 122 million people across the nation. At fiscal 1991 year-end, we operated 318 department stores in 30 states and the District of Columbia.

May also operates Payless ShoeSource, the country's largest chain of self-service family shoe stores, selling 135 million pairs of shoes in 1991. Payless ShoeSource operated 3,295 stores at fiscal year-end in 47 states, the District of Columbia and Puerto Rico.

May employs approximately 115,000 associates in 48 states, the District of Columbia, Puerto Rico and 13 offices overseas. Our operating companies are listed on page 32 of this report.

The May Department Stores Company Financial Highlights

(millions, except per share)	Fiscal 1991	Fiscal 1990	Increase
Net retail sales	\$10,402	\$9,857	6%
Net earnings	\$ 515	\$ 500	3%
Earnings per share	\$ 3.87	\$ 3.74	3%
Annual dividend rate per share at year-end	\$ 1.62	\$ 1.58	3%
Return on net assets	16.0%	17.2%	
Return on equity	20.7%	21.8%	

Letter to Shareowners	2	Eleven Year	
Selling Stars	8	Financial Summary	28
Management's		Management's	
Discussion and Analysis	10	Responsibility and	
Summary of Significant		Report of Independent	
Accounting Policies	15	Public Accountants	30
Consolidated		Board of Directors	31
Financial Statements	16	Company Management	
Notes to Consolidated		and Corporate	
Financial Statements	20	Management	32
Six Year Summary		Shareowner	Inside
by Business Segment	27	Information	Back Cover

Letter to Shareowners

Our organization has continued to perform well during the second consecutive year of a difficult economy, and we achieved our 17th consecutive year of record sales and earnings per share. Sales for fiscal 1991 increased 5.5% to \$10.4 billion compared to \$9.9 billion last year. Earnings per share were \$3.87, up 3.5% from \$3.74 in fiscal 1990. Net earnings for the year totaled \$515 million versus \$500 million in the prior fiscal year.

In the 1991 fourth quarter, sales increased 3.3% to \$3.28 billion. Earnings per share totaled \$2.01, a 5.2% increase over \$1.91 last year, and net earnings for the 1991 fourth quarter were \$266 million, up \$14 million compared to the same period last year.

The Board of Directors increased the annual dividend rate to \$1.66 per share, up from \$1.62. Payable as \$.41½ per quarter, the rate increase is effective with the June 1992 dividend payment and represents our 17th consecutive year of dividend increases.

We consolidated two department store divisions into larger divisions during 1991 to better serve our customers. Fourteen Thalhimers stores in North Carolina and Virginia were consolidated with our Hecht's division based in Washington, D.C. Thirteen L.S. Ayres stores throughout Indiana were consolidated into our Famous-Barr division headquartered in St. Louis.

We emerge from two difficult years in retailing, having put in place many initiatives to generate store-for-store sales increases. Given any improvement in the economic climate, May is in position to benefit significantly from these programs.

Merchandising. We are constantly working to make better buying decisions – having the brands, styles and sizes that our customers want. We have broadened our merchandise assortments, expanding important names such as Cole-Haan, Anne Klein II, Via Spiga, Easy Spirit, Guess and K-Swiss in shoes and Clarins, Chanel, Prescriptives and Origins in cosmetics. In apparel, we are expanding the important Dockers and Levi's lines for misses, women, men, young men and children. Assortments from leadership names such as DKNY, Ralph Lauren, Liz & Co., Guess and Elisabeth are being strengthened, as are men's collection lines such as Polo, Tommy Hilfiger, Nautica, Guess and Girbaud. In the home area, we have added Christian Dior, Portmeirion, Arthur Court, Wilton and Waterford's new Marquis line.

We are presenting more powerful merchandise statements to our customers with deep, strong assortments. For instance, many stores have inventories of 10,000 neckties and more than 1,500 suits.

We are determined to give customers more compelling values. Partnership programs with our major suppliers ensure that we get the most out of our purchasing power, buying at the best possible price and passing on these values to our customers.

To serve more customers, we are offering additional sizes in many merchandise categories – more widths and sizes in shoes, larger sizes in men's suits, sport coats and dress slacks, and longer sleeve lengths and larger collar sizes in dress shirts. We are working in partnership with our vendors to offer a more compelling assortment of sizes in women's sportswear, dresses, intimate apparel, hosiery, coats and swimsuits. Equally, we are making a strong statement in petites. Women's and petites are among our fastest growing businesses.

To further improve our buying, we have adopted corporate-wide steering committees which are composed of experienced merchandise managers and buyers. Working in partnership

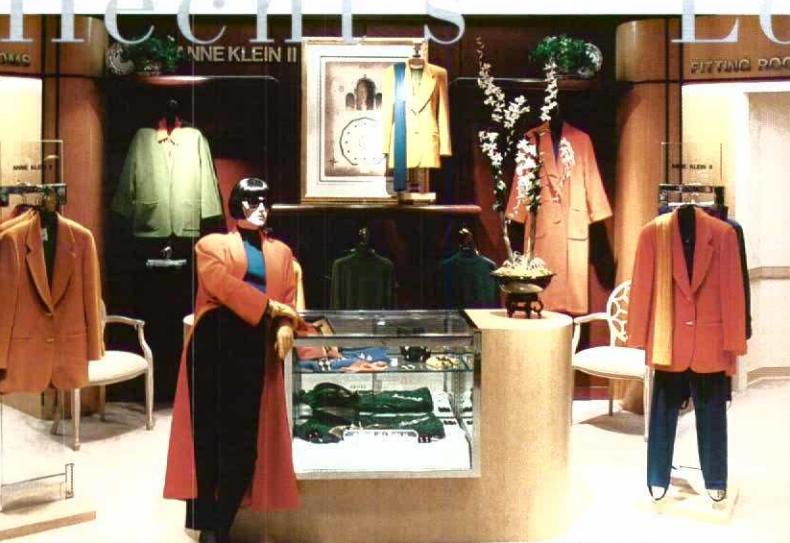
with May Merchandising Company (MMC), our New York merchandising office, the steering committees are integrating their experience and skill to significantly influence our merchandise selections.

Much progress has been made in executing our merchandising programs at the individual store level. Improved sales and stock information now available by individual store location are enabling us, more than ever, to precisely target the merchandise mix for each location.

Another merchandising priority is to react still faster to emerging ideas. Two programs introduced in 1991 are giving our merchants fast, actionable information to capitalize on trends. First, we are using our teleconferencing ability to broadcast emerging trends. Within days of recognizing an important new idea, our MMC merchants can identify the best style options and broadcast the specifics to our stores. This ability is particularly important in fast-moving categories such as juniors and dresses. Second, our "best seller system" is a partnership between store merchants and MMC to produce a weekly summary of fast-selling items. This concise overview gives our merchants an early look at new developments across the country.

We are vigorously pursuing the gift business. Distinctive names such as Wilton Armetale and Nambe have joined our Lladro, Lalique, Orrefors and Waterford assortments. We are using in-store displays and merchandise presentations tied to powerhouse gift-giving events such as graduation, Mother's Day and Father's Day, as well as the traditional holiday occasions throughout the year. Emphasis is being placed company-wide on Bridal Registry

Hecht's Lord & Taylor





May D&F Meier & Frank

programs. We recently introduced Touch-screen Bridal Gift monitors – interactive video displays on the selling floor that provide an automatic printout of registered selections.

We are making substantial progress on automatic replenishment, a key to having the merchandise our customers want. We are using quick response systems for traditional basic stock areas and for seasonal merchandise to keep the most popular sizes and colors in our stores.

We continue to invest in visual presentations that illustrate important merchandise ideas. Often done in partnership with our vendors, our visual presentations incorporate specialized fixturing, photo murals and special signage to make shopping easier.

Customer Service. Treating our customers right is a basic priority for everyone in our corporation. Our Friendliness Program, now in its fifth year, remains a success with our customers and, importantly, with our associates. Our CEO Cup awards, given for the second year, recognize outstanding achievements in customer service by individual stores and by one overall store company.

We are increasing the emphasis on selling. To reinforce sales productivity, the President's Club was introduced company-wide in 1991. This program features a special name badge to recognize associates' sales accomplishments, and we ended 1991 with over 5,000 President's Club members whose sales totaled approximately \$1.7 billion.

Our interviewing and hiring process has been refocused to identify applicants who genuinely

want to sell. Soon we will be placing new sales associates on the selling floor faster with a comprehensive videotape point-of-sale training program. We are emphasizing staffing on the selling floor to meet customers' needs.

Our associates' support of our customer service efforts continues to be enthusiastic and is key to our success. Our customer service stars – representatives of Diamond Star, President's Club and CEO Cup associates – are featured on pages 8 and 9 of this report.

Reducing Expenses. A strength of May, demonstrated in each of the past two years, is our successful control of expenses. The payback will be more significant for us given any pick-up in sales. We routinely look at every part of our business for new ideas. We have opened three regional centers to process customers' mailed charge payments. In the stores, customers can now make monthly charge payments at the sales registers, providing more convenience and timesaving for shoppers, while eliminating some expenses. To improve our telephone service, a new centralized communications center has been established to answer calls and direct them to our stores. We continue to invest capital for productivity gains in our distribution centers, advertising production departments and other key sales support functions.

Growth from Expansion. Critical to May's growth is the aggressive opening of new stores, as well as remodels and expansions of existing stores. Our five-year capital expenditure plan of \$3.9 billion includes an investment of \$2.6 billion to open 97 new department stores and approximately 1,200 net new Payless ShoeSource stores, representing more than 19 million square feet of retail space. With real estate development having been hampered by





Famous-Barr Robinson's

the economy during the last two years, we will open six department stores in 1992, adding approximately 850,000 retail square feet, and 275 net new Payless ShoeSource stores with 845,000 square feet of retail space.

Remodeling and expanding high sales-per-square-foot stores continue to produce successful results for the company through more productive square footage, a better allocation of space and improved merchandise adjacencies.

We are fortunate to have the strong cash flow and financial position to permit these continuing aggressive capital expenditures.

Foundation Activities. In 1991, The May Department Stores Company Foundation and our 115,000 associates together gave more than \$15 million to worthwhile endeavors in the communities where we operate. The Foundation's contributions totaled over \$10 million, including \$3 million to United Way local chapters, and our associates contributed \$5 million to the United Way and, through our Matching Gift Program, to other organizations. We are proud of the active role our associates take in their communities.

Our national sponsorship of Older Adult Service and Information Systems (OASIS) continued in 1991. At year-end, more than 140,000 members were participating in 27 centers located in our department stores. Our support for education includes the OASIS Intergenerational Tutoring Program, in which grade-schoolers are tutored one-on-one in reading

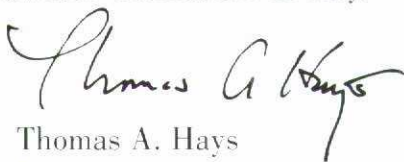
skills by trained OASIS members. By the end of the year, the program will be in 12 cities, serving a total of 2,000 students. Also in 1991, we gave our second annual grants to the National Community AIDS Partnership and the Design Industries Foundation for AIDS.

Human Resources. The achievements of this year were possible because of our associates. The strength of our associate team is our key resource. We remain committed to having the best talent in retailing working throughout our organization, and we continue to hire top graduates from the leading campuses in the nation. Our executive training program for new graduates was significantly enhanced in 1991 to accelerate new executives' transition into the business. Supporting executives' development at every step of their careers, our executive development conferences for buyers, divisional merchandise managers and store managers continue to be refined.

May has performed well in two back-to-back challenging years. We extend our appreciation to our associates nationwide for this achievement. We express our gratitude to the members of our Board of Directors and to our suppliers for their important contributions to our success. We also are greatly appreciative of our shareowners' confidence in May.



David C. Farrell
Chairman and Chief Executive Officer
March 30, 1992



Thomas A. Hays
President

Kaufmann's May Company



Selling Stars



Terrie G. Panasiti
May Company, Ohio

Jerome T. Loch
Vice-Chairman

Concetta Caravaggio
Lord & Taylor



Helen E. Leara
Famous-Barr

Doris M. Wilson
L.S. Ayres

Shirley Toolzie
May Company,
California

Roberta Bartek
Filene's

Sylvia E. Fabrega
Robinson's

Gabriella Powell
Meier & Frank

Lawrence E. Hong
Vice-Chairman

Francesca Yurick
Foley's



Carole S. Casace
G. Fox

Jeffrey A. Zona
G. Fox

Patricia Lawton-Hicks
G. Fox

Catherine L. Concatori
G. Fox



Daphne Taylor
Lord & Taylor

Richard L. Gibbons
Foley's

Maria E. Badios
G. Fox

Thomas J. Young
G. Fox

Barbara A. Laird
G. Fox

Richard L. Robinson
Hecht's

Thomas A. Hays
President

Agnes M. Ingram
Foley's



Simla S. Bhatt
Kaufmann's

Darcy A. Lee
G. Fox

Mary Ellen Monteil
May D&F

John M. Karnes
Hecht's

Richard L. Battram
Vice Chairman

Jo E. Hodges
Thalhimer's



We are proud to recognize representatives of our outstanding selling stars. Our associates' enthusiasm and commitment to customer service have made our stores better places to shop. We acknowledge their spirit and drive to constantly improve our service.

Shown here are 14 Diamond Star associates, one from each store company, representing the 15,000 associates company-wide who have attained this highest level of customer service recognition.

We also present representatives of CEO Cup-winning stores, which achieved outstanding customer service performance; President's Club performers who led the company in sales productivity; and associates whose personal efforts have moved customer service levels higher.



The 1991 store company CEO Cup award was presented to Filene's as the overall best service provider within May.

CEO Cups also were awarded to the following individual stores:
Lord & Taylor: Dade County, Fla.; Downtown and South Shore in Boston; and New Orleans
Hecht's: Waldorf, Md.; Fayetteville, N.C.; and Norfolk, Va.
Foley's: Woodland Hills in Tulsa; Tyler, Texas; Downtown Houston; Foothills and Tucson Mall in Tucson
May Company, California; Plaza Bonita in San Diego
Famous-Barr: Joplin and Springfield, Mo.
Kaufmann's: Century III in Pittsburgh
Robinson's: Thousand Oaks and Escondido, Calif.
Filene's: Salem and Hanover, Mass.
G. Fox: Danbury, Conn.
May D&F: Colorado Springs
Meier & Frank: Salem, Ore.
L.S. Ayres: Greenwood, Ind.



Raymond G. Gura
May Company, Ohio

Magda Boctor
Lord & Taylor

Joel Lynn M. Bolkovatz
L.S. Ayres

Kenneth Kolker
Chief Executive Officer,
May Merchandising Company

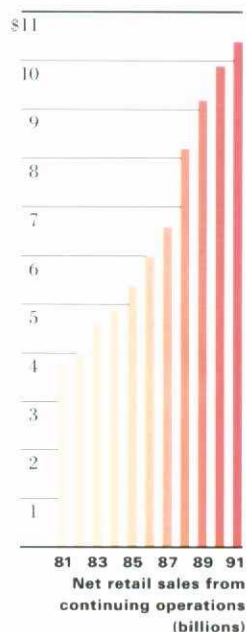


Joseph M. Melvin
Chairman, Filene's

David C. Farrell
Chairman and Chief
Executive Officer

Heywood L. Wilansky
President and Chief
Executive Officer, Filene's

Management's Discussion and Analysis



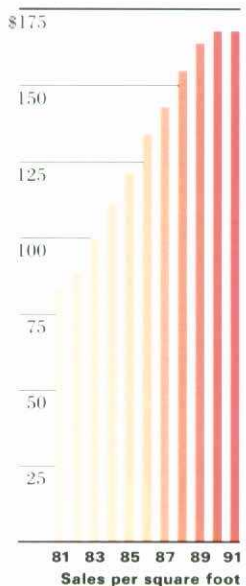
We are pleased to report record level sales and earnings per share from continuing operations for the 17th consecutive year. While 1991 was a much more difficult year than anticipated, the second consecutive such year, the execution of our merchandising and customer service strategies and strong expense controls were key elements of our performance and in positioning us well for 1992. Over the most recent five years, our compound growth rate for earnings per share from continuing operations is 13%, one of the best performances in the retail industry.

Sales in 1991 were \$10.4 billion, an increase of 5.5% over 1990 sales of \$9.9 billion. The sales increase over last year reflects the benefit of new store openings and the acquisition of the Thalhimers department store company in November 1990. Store-for-store sales decreased 0.3% in 1991. Store-for-store sales increases (decreases) for the first through fourth quarters in 1991 were (1.6)%, 0.7%, 0.3% and (0.5)%, respectively.

Earnings per share reached \$3.87, a 3.5% increase over last year's \$3.74. Net earnings totaled \$515 million compared to \$500 million last year. Return on revenues was 4.9% in 1991 compared to 5.0% in 1990. Return on net assets was 16.0% in 1991 compared to 17.2% in 1990, and return on equity was 20.7% in 1991 compared to 21.8% in 1990.

During 1991, May announced the consolidation of two of its department store divisions into other divisions — Thalhimers based in Richmond, Va., into Hecht's headquartered in Washington, D.C., and L.S. Ayres based in Indianapolis into Famous-Barr headquartered in St. Louis. Both of these consolidations were effective February 1992. Over the past six years, May has consolidated eight of its department store companies into others, resulting in more powerful regional companies to better serve our customers.

For our department store segment, 14 stores opened during 1991, adding 2.0 million square feet of retail space. These were Lord & Taylor in Danbury, Conn., the Saint Louis Galleria and Buffalo, N.Y.; Hecht's in Raleigh/Durham, N.C., and Salisbury and Baltimore, Md.; Foley's in Lewisville, Texas, and Tucson, Ariz.; May Company, California, in Santa Ana; Famous-Barr in the Saint Louis Galleria and Carbondale, Ill.; Robinson's in Los Angeles; Filene's in Salem, N.H.; and G. Fox in Milford, Conn. In addition, May remodeled 13 department stores in 1991, totaling 1.4 million retail square feet, and expanded six of these stores. At fiscal year-end, May operated 318 department stores in 30 states and the District of Columbia.



Twenty low-productivity department stores were closed during the year, involving 2.7 million retail square feet. Fifteen of the closed stores were Thalhimers and L.S. Ayres stores. Three closed stores were replaced by more productive stores in nearby locations — the Hecht's store at The Center at Salisbury in Maryland replaced the store at nearby Salisbury Mall; May Company, California's store at MainPlace in Santa Ana replaced the store at The City; and Famous-Barr's flagship store at the Saint Louis Galleria replaced the former Clayton store.

Payless ShoeSource continued a high level of expansion in 1991, opening 328 net new stores and adding more than one million square feet of retail space. Payless ShoeSource opened its first stores in Vermont and expanded outside the continental United States with new stores in Puerto Rico. The largest area of growth was in the Northeast with 155 net new stores. At year-end, Payless ShoeSource operated 3,295 stores in 47 states, the District of Columbia and Puerto Rico.

In 1992, six new department stores will open, adding about 850,000 square feet of retail space. During March, Filene's opened a new store in Taunton, Mass. One additional spring opening is G. Fox in Middletown, N.Y. Fall openings are Lord & Taylor in Trumbull, Conn.; Foley's in San Antonio, Texas; and May Company, California, in Santa Clarita and Moreno Valley. The company plans to remodel 18 department stores in 1992, totaling 1.3 million square feet of retail space, and to expand nine of these stores.

Payless ShoeSource will add 275 net new stores in 1992 with 845,000 square feet of retail space. The largest expansion will be in the Northeast with approximately 110 net new stores. Planned new market areas in 1992 will include Alaska, Hawaii and Maine, giving Payless ShoeSource stores in each of the 50 states.

May's 1992-1996 expansion plan will add 97 new department stores, totaling 15.6 million retail square feet. During this five-year period, May will invest \$1.6 billion for new stores and will spend an additional \$350 million to remodel existing stores.

The expansion plan for Payless ShoeSource during the 1992-1996 period involves a capital investment, including the present value of operating leases, of \$1.0 billion to add approximately 1,200 net new stores with 4.0 million square feet of retail space. An additional \$65 million will be invested to remodel existing stores.

REVIEW OF OPERATIONS

May operates in two retail business segments – department stores and self-service family shoe stores operated by Payless ShoeSource. Specific information by business segment is presented in the Six Year Summary by Business Segment on pages 26 and 27. On a total company basis, results from continuing operations were as follows:

(dollars in millions, except per share)	1991		1990		1989	
	\$	% of Revenues	\$	% of Revenues	\$	% of Revenues
Net Retail Sales	\$10,402		\$ 9,857		\$9,214	
Revenues	\$10,615	100.0%	\$10,066	100.0%	\$9,602	100.0%
Cost of sales	7,339	69.1	6,978	69.3	6,581	68.6
Selling, general and administrative expenses	2,164	20.4	2,046	20.3	1,989	20.7
Interest expense, net	316	3.0	280	2.8	233	2.4
Earnings before income taxes	796	7.5	762	7.6	799	8.3
Provision for income taxes	281	35.3*	262	34.3*	284	35.6*
Net earnings	\$ 515	4.9%	\$ 500	5.0%	\$ 515	5.4%
Fully diluted earnings per share	\$ 3.87		\$ 3.74		\$ 3.64	

* Percent represents effective income tax rate.

Fiscal 1989 included 53 weeks; however, the additional week did not materially affect 1989 earnings. All 1989 net retail sales information in this Review of Operations is presented on a comparable calendar-adjusted 52-week basis to provide a meaningful year-over-year comparison.

Net Retail Sales. Net retail sales (see page 15 for definition) increases (decreases) by business segment for 1991 and 1990 were as follows:

	1991 vs. 1990		1990 vs. 1989		Five-Year Compound Growth Rate
	Total	Store-for-Store	Total	Store-for-Store	
Department stores	4.3%	(0.7)%	6.3%	0.6%	11.7%
Payless ShoeSource	13.3	2.6	11.1	3.6	10.6
Total	5.5%	(0.3)%	7.0%	1.0%	11.6%

Total sales increases for 1991 reflect the opening of 14 new department stores, the full-year results of Thalhimers and 328 net new Payless ShoeSource stores. Total sales increases for 1990 include the results of Thalhimers from its effective acquisition date of November 4, 1990, along with 21 new department stores and 221 net new Payless ShoeSource stores.

Sales per square foot by segment were as follows:

	1991	1990	1989	1986	1991 vs. 1990 Inc. (Dec.)	Five-Year Compound Growth Rate
Department stores	\$171	\$172	\$168	\$134	(0.6)%	5.0%
Payless ShoeSource	152	147	141	136	3.4	2.2
Total	\$168	\$168	\$164	\$134	0.0 %	4.6%

Sales include finance charge revenue and leased and licensed department sales as follows:

(millions)	1991	1990	1989
Finance charge revenue	\$351	\$332	\$289
Leased and licensed department sales	356	366	372

Cost of Sales. Cost of sales includes cost of merchandise sold and occupancy and buying costs. Cost of sales was \$7.34 billion in 1991 compared to \$6.98 billion in 1990, a 5.2% increase. The overall increase is principally related to higher sales volume. As a percent of revenues, cost of sales was 69.1% in 1991 compared to 69.3% in 1990. The decrease in the percent in 1991 resulted from a lower LIFO charge (\$26 million in 1991 compared to \$39 million in 1990). Gross margin, as a percent of revenues, was the same in 1991 and 1990.

Cost of sales was \$6.98 billion in 1990 compared to \$6.58 billion in 1989, a 6.0% increase. The overall increase is principally related to higher sales volume. As a percent of revenues, cost of sales was 69.3% in 1990 compared to 68.6% in 1989. The increased 1990 percent compared to 1989 resulted primarily from a higher LIFO provision – a \$39 million charge in 1990 compared to a \$22 million credit in 1989. Improvements derived in occupancy and buying costs from the consolidation of divisions in 1988 and 1989 were offset by the impact of a slightly lower gross margin percent in 1990 resulting from higher markdowns.

The impact of LIFO on cost of sales, as a percent of revenues, is shown below:

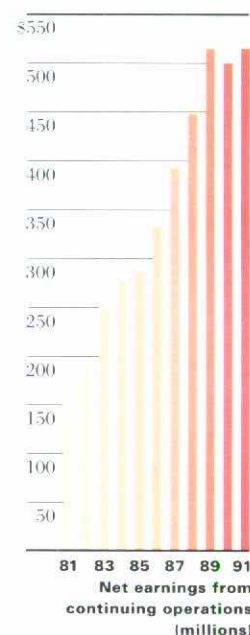
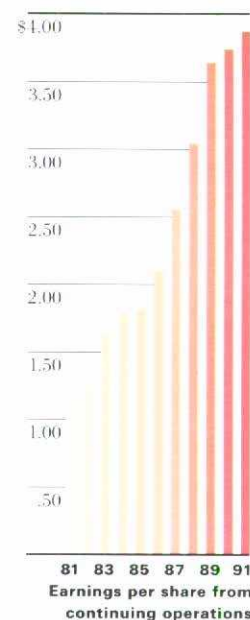
	1991	1990	1989
Cost of sales	69.1%	69.3%	68.6%
LIFO charge (credit)	0.2	0.4	(0.2)
Cost of sales before LIFO	68.9%	68.9%	68.8%

Selling, General and Administrative Expenses.

Selling, general and administrative expenses were \$2.16 billion in 1991 compared to \$2.05 billion in 1990, a 5.8% increase. The overall increase is principally related to higher sales volume. As a percent of revenues, selling, general and administrative expenses were 20.4% in 1991 compared to 20.3% in 1990. The increase in the expense rate in 1991 is due to higher sales promotion expense and higher accounts receivable bad debt expense.

Selling, general and administrative expenses were \$2.05 billion in 1990 compared to \$1.99 billion in 1989, a 2.9% increase. As a percent of revenues, selling, general and administrative expenses were 20.3% in 1990 compared to 20.7% in 1989. The decrease in the expense rate was primarily due to strong expense control measures, particularly in payroll costs and sales promotion, and benefits derived from past department store consolidations, partially offset by a higher accounts receivable bad debt expense.

Included in selling, general and administrative expenses are advertising and sales promotion costs of \$389, \$367 and \$359 million in 1991, 1990 and 1989, respectively.





During 1991, the company announced the consolidation of its Thalhimers division based in Richmond, Va., into its Hecht's division based in Washington, D.C., effective February 1992. Also, the company announced the consolidation of its L.S. Ayres division based in Indianapolis into its Famous-Barr division based in St. Louis, effective February 1992. In 1991, the company provided pretax charges of \$36 million for costs associated with these consolidations and \$26 million for costs associated with closing 20 low-productivity department stores, 15 of which were Thalhimers and L.S. Ayres locations. Also during 1991, the company recorded pretax gains of \$35 million from real estate transactions and \$25 million from the sale of its equity interest in the Caldor Corporation. The pretax charges and pretax gains are included in selling, general and administrative expenses.

Interest Expense. The components of interest expense are provided below:

(dollars in millions)	1991	1990	1989
Interest expense	\$354	\$314	\$265
Interest income	(24)	(20)	(22)
Capitalized interest	(14)	(14)	(10)
Interest expense, net	\$316	\$280	\$233
Percent of revenues	3.0%	2.8%	2.4%

The increase in 1991 net interest expense compared to 1990 is primarily due to a higher level of debt during the first three quarters of 1991 resulting from the \$317 million purchase of Thalhimers in November 1990. Also, the company obtained long-term financing of \$434 million during 1991, converting \$214 million of 1990 year-end short-term borrowings to a 1991 year-end cash equivalent position of \$192 million. The net interest expense in 1990 increased over 1989 mainly due to higher borrowings associated with the February 1, 1990, repurchase of common stock from May Centers Associates (MCA) for \$663 million and the acquisition of Thalhimers. See May Centers Associates on page 22.

Income Taxes. The effective income tax rate was 35.3% in 1991 compared to 34.3% in 1990 and 35.6% in 1989. The increase in the 1991 effective rate compared to 1990 is due to the elimination of the deferred gross profit rate differential, partially offset by higher tax credits in 1991. The deferred gross profit rate differential resulted from repaying the deferred taxes related to deferred gross profit on accounts receivable at a lower rate than originally provided. The taxes were repaid over a four-year period which ended in 1990, and the tax rate differential on each year's repayment was reflected as a reduction in that year's tax provision. The decrease in the effective rate in 1990 compared to 1989 resulted from higher tax credits and the impact of greater MCA partnership equity earnings, which are reflected as a credit to selling, general and administrative expenses on an aftertax basis. See Taxes on page 21. Also see Summary of Significant Accounting Policies on page 15 for a discussion of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes."

Fully Diluted Earnings Per Share. Fully diluted earnings per share from continuing operations reached \$3.87 in 1991 compared to \$3.74 in 1990 and \$3.64 in 1989. Fully diluted earnings per share from continuing operations in 1990 increased at a rate greater than net earnings from continuing operations due to common share repurchases. See Share Repurchases on page 24.

Net Earnings. Net earnings from continuing operations totaled \$515 million in 1991 compared to \$500 million in 1990 and \$515 million in 1989. On a total company basis, return on revenues was 4.9% in 1991 compared to 5.0% in 1990 and 5.4% in 1989.

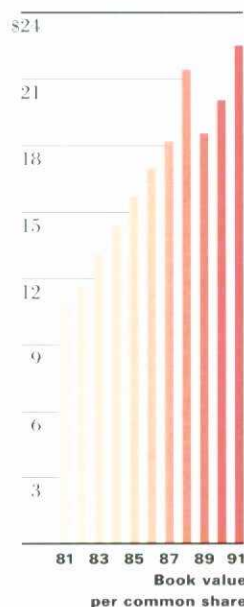
Overall, the company's sales growth and earnings have not been materially impacted by inflation. The department store inflation rate, as measured by the government's Department Store Price Index, was 2.3% during 1991 compared to 3.5% in 1990. Selling prices over time have generally kept pace with cost increases and, as a result of valuing the majority of inventory on a LIFO basis, the current cost of merchandise is reflected in current operating results.

Summary Segment Information. May operates 12 department store companies across the United States, each operating under long-standing and widely recognized names. Each store company holds a leading position in its region. Results for the department store segment were:

(dollars in millions)	1991	1990	1989	Increase (Decrease)	
				1991	1990
Net retail sales	\$8,854	\$8,491	\$7,984	4.3%	6.3%
Operating earnings	963	915	945	5.3	(3.2)
Return on sales	10.9%	10.6%	11.5%		
Return on net assets	13.0	20.0	22.3		

Department store operating earnings represent LIFO earnings before income taxes, net interest expense and corporate expense, and exclude goodwill amortization and costs associated with store closings and divisional consolidations. Department store operating earnings presented above include LIFO charges of \$26 million and \$39 million in 1991 and 1990, respectively, and a LIFO credit of \$22 million in 1989. Department store operating earnings, excluding LIFO, are presented below on a supplementary basis for comparative purposes:

(dollars in millions)	1991	1990	1989	Increase	
				1991	1990
Operating earnings	\$989	\$954	\$923	3.7%	3.3%
Return on sales	11.2%	11.0%	11.2%		



Payless ShoeSource, the nation's largest chain of self-service family shoe stores, sold 135 million pairs of shoes in 1991, representing one of every eight pairs of shoes sold in the United States. Also during 1991, Payless ShoeSource expanded into Puerto Rico, acquiring 19 stores. At year-end, Payless ShoeSource operated 3,295 stores in 47 states, the District of Columbia and Puerto Rico. Results for Payless ShoeSource were:

(dollars in millions)	1991	1990	1989	Increase	
				1991	1990
Net retail sales	\$1,548	\$1,366	\$1,230	13.3%	11.1%
Operating earnings	134	161	144	14.8	11.6
Return on sales	11.9%	11.7%	11.7%		
Return on net assets	29.0	23.9	23.9		

Provided at the bottom of this page is a summary of net retail sales, sales per square foot, building area square footage and number of stores for the department store segment and Payless ShoeSource.

REVIEW OF FINANCIAL CONDITION

Return on equity is our principal measure in evaluating our performance for shareowners and our ability to profitably invest shareowners' funds. Because of significant changes to shareowners' equity during past years resulting from our employee stock ownership plan (ESOP) and repurchases of May common stock from the MCA partnership, this measure must be viewed over the long term. Return on net assets is a more consistent measure of performance and effectiveness of capital investments.

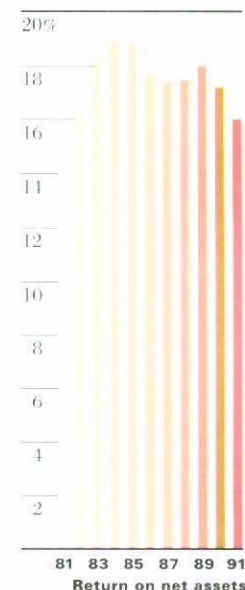
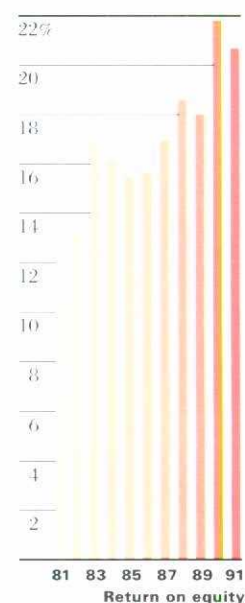
Return on Net Assets. Return on net assets represents pretax earnings from continuing operations before interest expense and the interest component of operating leases, divided by net assets (including present value of operating leases) of continuing operations at the beginning of the year. Return on net assets was 16.0% in 1991 compared to 17.2% in 1990 and 18.0% in 1989.

Return on Equity. Net earnings generated through operations (continuing and discontinued) and common shareowners' equity at the beginning of the year are the components used to measure our performance. Our objective is to sustain performance that places our return on equity in the top quartile of the retail industry. Our return on equity in 1991 was 20.7% compared to 21.8% in 1990 and 18.0% in 1989. Return on equity in 1990 was benefited by reduced shareowners' equity resulting from the formation of our ESOP and common stock repurchases in 1989.

Capital Structure. Our capital structure reflects our objectives to generate superior shareowner returns, consistent with maintaining access to capital at all times at reasonable costs.

During 1991, the company obtained \$434 million of long-term financing – \$375 million from the issuance of 30-year debentures, \$2 million from the issuance of medium-term notes and \$57 million from sale/leaseback transactions as described on page 14. The proceeds from these financings were used to repay the company's outstanding commercial paper and short-term indebtedness, and for general corporate purposes.

During the 1990 fourth quarter, the company issued \$500 million of debt securities with maturities ranging from two to 30 years. Proceeds from these issuances were used to retire a portion of outstanding commercial paper borrowings. During the 1990 fourth quarter, the company completed the acquisition of the Thalhimers department store company for \$317 million. Also during 1990, the company announced plans to repurchase up to \$250 million of its common stock through purchases in the open market from time-to-time as market conditions allow. As of February 1, 1992, the company had purchased \$71 million of its common stock pursuant to the announcement.



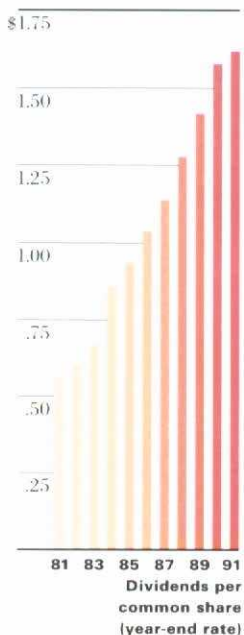
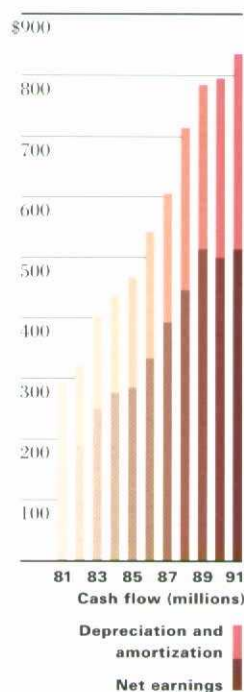
	Net Retail Sales in Millions of Dollars		Sales Per Square Foot		Building Area Square Footage in Thousands		Number of Stores			
	1991	1990	1991	1990	1991	1990	1991	New	Closed	1990
Lord & Taylor, New York City	\$1,185	\$1,088	\$197	\$185	6,099	5,955	48	3	1	46
Hecht's, Washington, D.C.	1,203	1,030	201	210	6,268	5,901	42	3	1	40
Foley's, Houston	1,176	1,150	155	156	7,778	7,426	38	2	-	36
May Company, California	968	987	153	158	6,314	6,320	37	1	1	37
Famous-Barr, St. Louis	822	801	153	152	5,256	5,457	30	2	2	30
Kaufmann's, Pittsburgh	785	768	180	181	4,340	4,393	25	-	-	25
Robinson's, Los Angeles	729	734	161	166	4,675	4,176	29	1	-	28
Filene's, Boston	500	486	209	217	2,480	2,299	20	1	-	19
G. Fox, Hartford	456	436	210	219	2,258	2,090	13	1	-	12
May Company, Ohio	438	441	153	153	2,846	2,879	16	-	-	16
May D&F, Denver	302	286	165	162	1,856	1,808	12	-	-	12
Meier & Frank, Portland, Ore.	290	284	167	161	1,738	1,739	8	-	-	8
Other	-	-	-	-	-	1,693	-	-	15	15
Total department stores	8,854	8,491	171	172	51,908	52,436	318	14	20	324
Payless ShoeSource	1,548	1,366	152	147	10,686	9,647	3,295	328 (net)	-	2,967
Total	\$10,402	\$9,857	\$168	\$168	62,594	62,083	3,613	342	20	3,291

Net retail sales represent sales of stores open at the end of 1991.

Sales per square foot is calculated on revenues of all stores and average square footage.

Building area represents gross retail square footage of stores open at the end of the period presented.

Other includes 15 Thalhimers and L.S. Ayres stores which were closed.



On February 1, 1990, 14.5 million shares of May common stock were purchased from MCA for \$663 million. The purchase was funded with a \$367 million sale/leaseback of 37 department stores to May Centers Associates Corporation (MCAC), a corporation owned by MCA, and with short-term borrowings. The company and MCAC completed additional sale/leaseback transactions of six department store properties amounting to \$57 million during 1991 and 23 department store properties amounting to \$210 million during 1990. As a result of May being a 50% partner in MCA, the sale/leaseback transactions are accounted for as loans from MCAC (MCAC loans). Proceeds were used to retire a portion of outstanding commercial paper borrowings and short-term indebtedness, and for general corporate purposes. See May Centers Associates on page 22 and Long-term Debt on page 23.

Our balance sheet and financial condition measures continue to be very strong. The debt-to-capitalization ratio was 54%, 55% and 54% at the end of 1991, 1990 and 1989, respectively. For purposes of the debt-to-capitalization ratio, total debt is defined as short-term and long-term debt (including the ESOP debt reduced by unearned compensation, and excluding one-half of the MCAC loans and one-half of the capital lease obligation payable to May Centers, Inc., as May is a 50% partner in MCA), redeemable preferred stock and the capitalized value of all leases, including operating leases. The company's objective is to use short-term debt only to finance seasonal requirements. Capitalization is defined as total debt, noncurrent deferred taxes, ESOP Preference Shares and shareowners' equity. See Pension and Profit Sharing on page 20 for discussion of the ESOP.

Fixed charge coverage was 2.4x, 2.5x and 2.7x in 1991, 1990 and 1989, respectively. Fixed charges are defined as gross interest expense (excluding one-half of the interest expense related to the MCAC loans), interest expense on the ESOP debt, total rent expense and the pretax equivalent of dividends on redeemable preferred stock.

Our bonds are rated A2 by Moody's Investors Service, Inc., and A by Standard & Poor's Corporation. Our commercial paper is rated P1 and A1 by Moody's and Standard & Poor's, respectively. Our debt-to-capitalization ratio and fixed charge coverage continue to be strong and consistent with our capital structure objectives and provide the company with substantial financial flexibility.

Cash Flow. Cash flow from continuing operations was 7.9% of revenues in 1991 and 1990 compared to 8.2% in 1989. The company's cash flow as a percent of revenues continues to be one of the highest in the retail industry. Internally generated funds are an important component of our capital resources. Sources and (uses) of cash flows are summarized below:

(millions)	1991	1990	1989
Continuing operations:			
Earnings and depreciation/amortization	\$ 834	\$ 794	\$ 784
Working capital decreases (increases)	23	(413)	(346)
Other operating activities	(51)	(3)	(11)
Investing activities	(515)	(778)	(424)
Financing activities	(105)	119	(338)
Discontinued operations	-	252	335
Increase in cash and cash equivalents	\$ 186	\$ 1	\$ -

Capital Expenditures. Capital investments are planned and evaluated based upon several financial measures. Return on net assets and sales per square foot are emphasized as the principal operating measures as we invest in new stores and remodels and eliminate unproductive space.

Capital expenditures in 1992 will approximate \$550 million (including \$135 million representing the capital value of new operating leases) and are planned at \$3.9 billion (including \$650 million representing the capital value of new operating leases) for the 1992-1996 period. Internal cash flow will be used to finance substantially all of these expenditures.

Available Credit. The company has \$1.2 billion of available borrowing under its multi-year credit agreements. In addition, as of February 1, 1992, the company had a shelf registration statement filed with the Securities and Exchange Commission which would enable it to issue up to \$348 million in additional debt securities. Subsequent to February 1, 1992, the company increased the dollar amount of the shelf registration statement to \$750 million.

Common Stock Dividends and Market Prices. Our policy is to increase dividends on common stock consistent with our earnings growth over time. The 1992 annual dividend rate was increased \$.04 to \$1.66 per share, the 17th consecutive annual dividend increase. The new annual dividend of \$1.66 per share will be effective with the June 1992 dividend payment. Dividends paid have increased at a compound rate of 10% during the past five years. The company has paid consecutive quarterly dividends since December 1, 1911.

The quarterly price ranges of the common stock and dividends per share in 1991 and 1990 were:

Quarter	1991			1990		
	Market Price High	Market Price Low	Dividends Per Share	Market Price High	Market Price Low	Dividends Per Share
First	\$55 ⁷ / ₈	\$45 ¹ / ₄	\$.39 ¹ / ₂	\$52 ¹ / ₈	\$43 ³ / ₈	\$.35 ¹ / ₂
Second	60 ⁵ / ₈	52 ³ / ₄	.40 ¹ / ₂	59 ¹ / ₈	45 ³ / ₄	.39 ¹ / ₂
Third	60 ¹ / ₄	49	.40 ¹ / ₂	47 ¹ / ₂	37 ³ / ₈	.39 ¹ / ₂
Fourth	59 ⁵ / ₈	46 ¹ / ₂	.40 ¹ / ₂	46 ¹ / ₂	37 ³ / ₈	.39 ¹ / ₂
Year	\$60 ⁵ / ₈	\$45 ¹ / ₄	\$1.61	\$59 ¹ / ₈	\$37 ³ / ₈	\$1.54

The approximate number of common shareowners as of March 1, 1992, was 46,000.

On October 9, 1990, the May common stock traded ex-Venture and, on November 3, 1990, the company distributed the common shares of Venture pro rata to May common shareowners of record on October 15, 1990. The May common stock price on October 8, 1990, was adjusted by the New York Stock Exchange from \$40.00 per share to \$38.75 per share, reflecting the impact of the pro rata distribution to May common shareowners of .13 shares of Venture common stock for each share of May common stock.

Summary of Significant Accounting Policies

Fiscal Year. The company's fiscal year ends on the Saturday closest to January 31. Fiscal years 1991, 1990 and 1989 ended on February 1, 1992, February 2, 1991, and February 3, 1990, respectively. Fiscal years 1991 and 1990 included 52 weeks and fiscal year 1989 included 53 weeks. References to years relate to fiscal years rather than calendar years.

Basis of Reporting. The consolidated financial statements include the accounts of the company and all wholly owned subsidiaries (the company). The consolidated financial statements reflect Caldor and Venture as discontinued operations. See Discontinued Operations on page 25. The company's 50% partnership investment in May Centers Associates (MCA) is included in other assets in the consolidated balance sheet and is accounted for using the equity method of accounting. See May Centers Associates on page 22. Certain prior year amounts have been reclassified to conform with current year presentation.

Net Retail Sales and Revenues. Net retail sales (sales) represent the sales of stores operating at the end of the latest period. They include the sales of Thalhimers from November 4, 1990, its effective acquisition date, and exclude the sales of divisions which have been sold or discontinued, as well as stores which have been closed and not replaced. Sales include sales of merchandise and services, finance charge revenue from customer accounts receivable and sales of leased and licensed departments. Sales are net of returns and exclude sales tax. Store-for-store sales represent sales of those stores open during both years. For comparability, 1989 net retail sales are presented on a 52-week basis for the period ended February 3, 1990.

Revenues include all sales from all stores operating during the period and are used in the calculation of sales per square foot using average gross retail square footage.

Cost of Sales. Cost of sales includes the cost of merchandise sold and occupancy and buying costs.

Property and Equipment. Property and equipment are recorded at cost and include historical amounts for the 66 department stores sold to and leased back from MCAC. See May Centers Associates on page 22. Property and equipment are depreciated on a straight-line basis over their estimated useful lives. Investments in properties under capital leases and leasehold improvements are amortized over the shorter of their useful lives or their related lease terms.

Preopening Expenses. Costs associated with the opening of new stores are expensed during the year incurred.

Income Taxes. The company provides income taxes currently for all items included in the consolidated statement of earnings regardless of when such taxes are payable. Deferred and prepaid taxes arise from the recognition of revenue and expense in different periods for tax and financial statement purposes. In February 1992, Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes," was

issued. SFAS No. 109, which is effective for fiscal years beginning after December 15, 1992, requires the adjustment of previously deferred taxes for changes in tax rates (the liability method). The impact of the adoption of SFAS No. 109 may be reported in income in the year of adoption or prior period financial statements may be restated to reflect the adjustment. After adoption of SFAS No. 109, future changes in the statutory tax rate will increase/decrease earnings and shareowners' equity and decrease/increase net deferred taxes to the extent they are less than/greater than the statutory rates they replace. The company expects to adopt SFAS No. 109 when required in 1993. The estimated impact of adoption of SFAS No. 109, without retroactive restatement, would be to reduce net deferred taxes and increase net earnings and shareowners' equity by approximately \$15 million.

Earnings Per Share. Primary earnings per share are computed by dividing net earnings less dividend requirements on redeemable preferred stock and ESOP Preference Shares (net of related tax benefits) by the average common shares outstanding and common share equivalents during the period. Fully diluted earnings per share assume conversion of the ESOP Preference Shares into common stock and adjust net earnings for the additional expense required to fund the ESOP debt service resulting from the assumed replacement of the ESOP Preference Shares dividends with common stock dividends. The average common shares outstanding and common share equivalents used to calculate fully diluted earnings per share were 132.1, 132.4 and 140.0 million in 1991, 1990 and 1989, respectively. See Share Repurchases on page 24. References to earnings per share relate to fully diluted earnings per share.

Cash Equivalents. Cash equivalents consist primarily of commercial paper and are stated at cost, which approximates market.

Accounts Receivable. In accordance with industry practice, installments on deferred payment accounts receivable maturing in more than one year have been included in current assets.

Merchandise Inventories. Merchandise inventories are valued at the lower of cost or market as determined primarily by the retail method, and are stated on the LIFO (last-in, first-out) cost basis for department stores (84% and 85% of the company's consolidated inventories in 1991 and 1990, respectively) and on the FIFO (first-in, first-out) cost basis for Payless ShoeSource. The accumulated LIFO provision was \$200 and \$174 million in 1991 and 1990, respectively.

Goodwill. Goodwill represents the excess of cost over the fair value of net tangible assets acquired at the dates of acquisition. Substantially all amounts are amortized using the straight-line method over a 40-year period. Goodwill is presented in the consolidated balance sheet net of accumulated amortization of \$59 and \$42 million in 1991 and 1990, respectively.

Consolidated Statement of Earnings

The May Department Stores
Company and Subsidiaries

(millions, except per share)	1991	1990	1989
Net Retail Sales	\$10,402	\$ 9,857	\$9,214
Revenues	\$10,615	\$10,066	\$9,602
Cost of sales	7,339	6,978	6,581
Selling, general and administrative expenses	2,164	2,046	1,989
Interest expense, net	316	280	233
Total cost of sales and expenses	9,819	9,304	8,803
Earnings from continuing operations before income taxes	796	762	799
Provision for income taxes	281	262	284
Net earnings from continuing operations	515	500	515
Net earnings from discontinued operations	-	-	6
Net loss on disposal of discontinued operations	-	-	(23)
Net earnings	\$ 515	\$ 500	\$ 498
Primary Earnings Per Share:			
Continuing operations	\$ 4.02	\$ 3.88	\$ 3.75
Discontinued operations	-	-	.05
Loss on disposal of discontinued operations	-	-	(.17)
Primary Earnings Per Share	\$ 4.02	\$ 3.88	\$ 3.63
Fully Diluted Earnings Per Share:			
Continuing operations	\$ 3.87	\$ 3.74	\$ 3.64
Discontinued operations	-	-	.05
Loss on disposal of discontinued operations	-	-	(.17)
Fully Diluted Earnings Per Share	\$ 3.87	\$ 3.74	\$ 3.52

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Balance Sheet

The May Department Stores
Company and Subsidiaries

(dollars in millions, except per share)

February 1,
1992

February 2,
1991

Assets

Current Assets:

Cash	\$ 15	\$ 21
Cash equivalents	192	-
Accounts receivable, net	2,404	2,494
Merchandise inventories	1,741	1,628
Other current assets	222	175
Total Current Assets	4,574	4,318

Property and Equipment:

Land	235	236
Buildings and improvements	2,409	2,192
Furniture, fixtures and equipment	1,795	1,646
Property under capital leases	101	106
Total property and equipment	4,540	4,180
Accumulated depreciation	(1,389)	(1,195)
Property and equipment, net	3,151	2,985

Goodwill	650	637
Other Assets	353	296
Total Assets	\$ 8,728	\$ 8,236

Liabilities and Shareowners' Equity

Current Liabilities:

Notes payable and current maturities of long-term debt	\$ 79	\$ 333
Accounts payable	662	670
Accrued expenses	652	628
Income taxes payable	129	52
Total Current Liabilities	1,522	1,683

Long-term Debt	3,918	3,565
Deferred Income Taxes	331	352
Other Liabilities	163	160
ESOP Preference Shares	394	397
Unearned Compensation	(381)	(388)

Shareowners' Equity:

Common stock	123	123
Additional paid-in capital	15	-
Retained earnings	2,643	2,344
Total Shareowners' Equity	2,781	2,467

Total Liabilities and Shareowners' Equity	\$ 8,728	\$ 8,236
---	----------	----------

Common stock has a par value of \$1.00 per share; 350 million shares are authorized and 156.8 million shares were issued. At February 1, 1992, 123.4 million shares were outstanding and 33.4 million shares were held in treasury. At February 2, 1991, 122.9 million shares were outstanding and 33.9 million shares were held in treasury.

ESOP Preference Shares have a par value of \$.50 per share, stated value of \$507 per share and 800,000 shares are authorized. At February 1, 1992, 777,224 shares (convertible into 7,962,779 common shares) were issued and outstanding. At February 2, 1991, 783,136 shares (convertible into 8,023,354 common shares) were issued and outstanding.

See Preferred and Preference Stock in Notes to Consolidated Financial Statements for discussion of other preferred stock.

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Statement of Shareowners' Equity

The May Department Stores
Company and Subsidiaries

(dollars in millions, shares in thousands)	Outstanding Common Stock		Additional Paid-in Capital	Retained Earnings	Total Share- owners' Equity
	Shares	Dollars			
Balance at January 28, 1989	149,110	\$149	\$ 18	\$2,883	\$ 3,050
Net earnings	-	-	-	498	498
Dividends paid:					
Common stock (\$1.38½ per share)	-	-	-	(186)	(186)
ESOP Preference Shares, net of tax benefit	-	-	-	(15)	(15)
Preferred stock	-	-	-	-	-
Common stock issued	2,153	2	68	-	70
Purchase of common stock	(26,914)	(27)	(86)	(985)	(1,098)
Balance at February 3, 1990	124,349	124	-	2,195	2,319
Net earnings	-	-	-	500	500
Dividends paid:					
Common stock (\$1.54 per share)	-	-	-	(191)	(191)
ESOP Preference Shares, net of tax benefit	-	-	-	(18)	(18)
Preferred stock	-	-	-	-	-
Common stock issued	1,482	2	60	-	62
Purchase of common stock	(2,935)	(3)	(60)	(84)	(147)
Distribution of equity in Venture	-	-	-	(58)	(58)
Balance at February 2, 1991	122,896	123	-	2,344	2,467
Net earnings	-	-	-	515	515
Dividends paid:					
Common stock (\$1.61 per share)	-	-	-	(198)	(198)
ESOP Preference Shares, net of tax benefit	-	-	-	(18)	(18)
Preferred stock	-	-	-	-	-
Common stock issued	1,150	1	46	-	47
Purchase of common stock	(588)	(1)	(31)	-	(32)
Balance at February 1, 1992	123,458	\$123	\$ 15	\$2,643	\$ 2,781

Outstanding common stock excludes shares held in treasury. Treasury share activity for the last three years is summarized below:

	1991	1990	1989
Balance, Beginning of Year	33,922	32,469	7,708
Common stock issued:			
Exercise of stock options	(840)	(978)	(1,255)
Deferred compensation plan	(162)	(286)	(354)
Restricted stock plan	(91)	(78)	(142)
Contribution to Profit Sharing Plan	-	(77)	(402)
Conversion of ESOP Preference Shares	(57)	(63)	-
	(1,150)	(1,482)	(2,153)
Purchase of common stock	588	2,935	26,914
Balance, End of Year	33,360	33,922	32,469

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Consolidated Statement of Cash Flows

The May Department Stores
Company and Subsidiaries

(millions)	1991	1990	1989
Operating Activities:			
Net earnings	\$ 515	\$ 500	\$ 498
Net loss from discontinued operations and disposal	-	-	17
Net earnings from continuing operations	515	500	515
Adjustments for noncash items included in earnings:			
Depreciation and amortization	319	294	269
Deferred income taxes (noncurrent)	14	9	42
Deferred and unearned compensation	21	28	21
Adjusted equity earnings of MCA	(33)	(31)	(20)
Working capital decreases (increases), net of acquisitions*	23	(413)	(346)
Other assets and liabilities, net	(53)	(9)	(54)
Discontinued operations	-	(31)	(106)
Total Operating Activities	806	347	321
Investing Activities:			
Capital expenditures	(512)	(548)	(522)
Disposition of property and equipment	46	69	129
Acquisition of companies	-	(317)	-
Property and equipment activity of discontinued operations	-	154	(70)
Proceeds on disposition of discontinued operations	-	-	525
Other	(49)	18	(31)
Total Investing Activities	(515)	(624)	31
Financing Activities:			
Increase (Decrease) in notes payable	(214)	(144)	322
Issuance of long-term debt	434	710	374
Repayment of long-term debt	(121)	(120)	(205)
Issuance of ESOP Preference Shares	-	-	400
Purchase of common stock	(32)	(147)	(1,098)
Issuance of common stock	44	59	70
Dividend payments	(216)	(209)	(201)
Debt activity of discontinued operations	-	129	(14)
Total Financing Activities	(105)	278	(352)
Increase in Cash and Cash Equivalents	186	1	-
Cash, Beginning of Year	21	20	20
Cash and Cash Equivalents, End of Year	\$ 207	\$ 21	\$ 20
*Comprised of:			
Accounts receivable, net	\$ 90	\$ (98)	\$ (136)
Merchandise inventories	(113)	(30)	(173)
Other current assets	(47)	(47)	(39)
Accounts payable	(8)	(20)	(34)
Accrued expenses	24	(126)	(17)
Income taxes payable	77	(92)	53
Net decrease (increase) in working capital	\$ 23	\$(413)	\$ (346)
Cash paid during the year:			
Interest	\$ 334	\$ 305	\$ 285
Income taxes	267	394	282

Noncash financing and investing activities include \$3 million conversions of ESOP Preference Shares into common stock in 1991 and 1990, the distribution of \$58 million equity in the spin-off of Venture in 1990, and \$400 million of ESOP debt issued by the company's Profit Sharing Plan and guaranteed by the company and the related unearned compensation in 1989. Noncash financing activities for discontinued operations include the retirement of \$52 million debt and capital lease obligations in 1989.

See the Summary of Significant Accounting Policies and Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Consolidations, Store Closings and Sale Transactions.

During 1991, the company announced the consolidation of its Thalhimers division based in Richmond, Va., into its Hecht's division based in Washington, D.C., effective February 1992. Also, the company announced the consolidation of its L.S. Ayres division based in Indianapolis into its Famous-Barr division based in St. Louis, effective February 1992. In 1991, the company provided pretax charges of \$36 million for costs associated with the consolidations and \$26 million for costs associated with closing 20 low-productivity department stores, 15 of which were Thalhimers and L.S. Ayres locations. Also during 1991, the company recorded pretax gains of \$35 million from real estate transactions and \$25 million from the sale of its equity interest in the Caldor Corporation.

During 1989, the company announced the consolidation of its Sibley's division based in Rochester, N.Y., into its Kaufmann's division based in Pittsburgh, effective February 1990. The company recorded a \$10 million pretax charge in 1989 for costs associated with the consolidation. Also during 1989, the company recorded a \$7 million pretax gain from the sale of a former store location.

Acquisition. Effective November 4, 1990, the company acquired the Thalhimers department store company for \$317 million. The acquisition was accounted for as a purchase and, accordingly, the results of Thalhimers have been included in the company's consolidated results since its effective acquisition date. The acquisition did not have a material effect on the results of operations or financial position of the company in 1990.

Pension and Profit Sharing. The company has one retirement plan which covers substantially all associates who work 1,000 hours or more per year and have attained age 21. The plan is noncontributory and provides benefits based upon years of service and pay during employment. The company also maintains a nonqualified supplementary retirement plan for certain associates and foreign retirement plans for certain overseas associates.

Effective January 1, 1991, the Thalhimers pension plan was merged with the May pension plan. As part of purchase accounting, a liability was recorded as of the effective acquisition date for the excess of Thalhimers' projected benefit obligation over its pension plan assets.

Pension expense for all plans is determined by the company based on information provided by an outside actuarial firm, using assumptions to estimate the total benefits ultimately payable to associates and then allocating this cost to service periods. Each of the actuarial assumptions used to calculate pension costs is reviewed annually. The following tables summarize the funded status of the plans, components of pension expense, actuarial assumptions and definition of key terms.

(millions)	1991	1990
Actuarial Present Value of Benefit Obligations:		
Vested benefit obligation	\$197	\$196
Nonvested benefit obligation	11	16
Accumulated benefit obligation (ABO)	208	212
Estimated effect of future salary increases	51	57
Projected benefit obligation (PBO)	259	269
Plan assets at fair value (primarily equity and fixed income securities)	256	250
Plan assets less than PBO	(3)	(19)
Unrecognized obligation	6	7
Unrecognized gain	(51)	(34)
Unrecognized prior service cost	23	25
Accrued pension cost	\$ (25)	\$ (21)
Plan assets in excess of ABO	\$ 48	\$ 38

The accrued pension cost represents the unfunded ABO for the nonqualified supplementary retirement plan.

(millions)	1991	1990	1989
Components of Pension Expense:			
Service cost	\$ 22	\$ 21	\$ 26
Interest on PBO	21	20	18
Actual return on assets	(43)	(9)	(42)
Net amortization and deferral	24	(11)	24
Settlement of pension obligations	(5)	(1)	-
Total	\$ 19	\$ 20	\$ 26

During 1991, the company increased its turnover assumption to better reflect recent experience and anticipated long-term experience. This change in turnover assumption reduced the 1991 pension expense by \$4 million. Also during 1991, the company settled certain retirees' pension obligations by offering lump sum settlements of their monthly pension benefits or by having an annuity purchased on their behalf from an insurer. The settlement resulted in a \$5 million reduction of pension expense in 1991.

The decrease in 1990 pension expense from 1989 primarily relates to favorable demographic experience and favorable investment performance in 1989, offset in part by additional expense related to an update of the pension benefit formula. During 1990, the company updated the pension plan's career average pay formula to reflect the effects of inflation on plan benefits. The last such formula update was in 1985.

	January 1,		
	1992	1991	1990
Actuarial Assumptions:			
Discount rate	8.25%	8.5%	8.25%
Expected return on plan assets	8.25	8.5	8.5
Salary increase	6.0	6.0	6.0

Definition of Key Terms:

ABO is the actuarial present value of benefits (both vested and nonvested) attributed by the pension benefit formula to prior associate service based on current and past compensation levels.

PBO is the actuarial present value of benefits attributed by the pension benefit formula to prior associate service taking into consideration future salary increases.

Accrued pension cost is the balance sheet accrued expense not yet paid to a plan.

Net amortization and deferral represents the net effect during the period of delayed recognition provisions of SFAS No. 87.

The company has one qualified profit sharing plan which covers substantially all associates who work 1,000 hours or more per year and have attained age 21. The plan is a contributory defined contribution plan which provides for discretionary matching allocations at a variable matching rate generally based upon changes in the company's annual earnings per share, as defined in the plan.

In March 1989, the company amended its Profit Sharing Plan to include an ESOP. Subsequent to the amendment, the Profit Sharing Plan borrowed \$400 million, guaranteed by the company, at an average rate of 8.5% with an average maturity of 12 years. The proceeds were used to purchase \$400 million of a new class of convertible preference stock of the company (ESOP Preference Shares). The company issued 788,955 shares of ESOP Preference Shares. The shares initially were each convertible into 10 shares of common stock and had a stated value of \$50.70 per common share equivalent. Upon the distribution of Venture shares to the company's common shareowners as of October 15, 1990, the conversion rate was adjusted to 10.2452 shares of common stock for each of the ESOP Preference Shares and the stated value was adjusted to \$49.49 per common share equivalent. The annual dividend rate on the ESOP Preference Shares is 7.5%, and the shares are redeemable by the holder or the company in certain situations.

The guaranteed ESOP debt of \$400 million is reflected in the consolidated balance sheet in long-term debt as the company ultimately will fund the required debt service. An equal amount was initially reflected as unearned compensation. The company's contributions to the ESOP, along with the dividends on the ESOP Preference Shares, will be used to repay the loan principal and interest. Interest expense associated with the ESOP debt was \$34 million in 1991 and 1990, and \$26 million in 1989. ESOP Preference Shares dividends were \$30 million in 1991 and 1990, and \$23 million in 1989. There have been no ESOP debt principal repayments to date. ESOP Preference Shares are allocated annually to participating associates based upon debt service payments and the annual matching allocations. Unearned compensation is amortized as principal is repaid and is adjusted for the difference between the expense related to the ESOP and cash payments to the ESOP.

The company's expense related to the Profit Sharing Plan was \$11 million in 1991 and 1990, and \$15 million in 1989. The decrease in profit sharing expense in 1990 from 1989 is a result of the full-year impact of the ESOP.

At February 1, 1992, the Profit Sharing Plan beneficially owned 6.9 million shares of the company's common stock and 100% of the company's ESOP Preference Shares, which are convertible into 8.0 million shares of the company's common stock, representing 11.3% of the company's common stock on a fully converted basis.

Another important element in the retirement programs for associates is the federal Social Security system into which the company paid \$131 million in 1991 as its matching portion of the \$131 million contributed by associates.

The company maintains a postretirement benefit plan for certain associates. Benefits vary by the group of associates covered and include fixed or variable benefits for life and/or health insurance. Current eligibility is limited to a small group of associates. During the past years, the company has accrued amounts for future postretirement benefits for covered retirees and active eligible associates. As of February 1, 1992, the present value, using an 8.5% discount rate, of the company's estimated future obligations for postretirement benefits of \$38 million is fully accrued in accordance with Statement of Financial Accounting Standards No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions." The estimated future obligations are based upon an assumed 10% annual health care cost increase. The postretirement plan is unfunded. During each of the past three fiscal years, the postretirement expense for current year payments and accrued amounts for future obligations has been \$3 million. A one-percentage-point increase in the assumed annual health care cost increase will increase the present value of estimated future obligations for postretirement benefits by \$2 million.

Taxes. The reconciliation between the statutory federal income tax rate and the effective income tax rate for the last three years follows:

	1991	1990	1989
Statutory federal income tax rate	34.0%	34.0%	34.0%
State and local income taxes, net of federal tax benefit	4.3	4.5	4.5
Deferred gross profit rate differential	-	(2.1)	(2.0)
Equity earnings of MCA partnership	(1.6)	(1.4)	(0.6)
Other, net	(1.4)	(0.7)	(0.3)
Effective income tax rate	35.3%	34.3%	35.6%

The provision for income taxes and related percent of pretax earnings for the last three years were as follows:

(dollars in millions)	1991		1990		1989	
	\$	%	\$	%	\$	%
Federal	\$237		\$231		\$236	
State and local	49		55		54	
Taxes currently payable	286	35.9%	286	37.5%	290	36.3%
Federal	(5)		(21)		(6)	
State and local	-		(3)		-	
Deferred taxes	(5)	(0.6)	(24)	(3.2)	(6)	(0.7)
Total	\$281	35.3%	\$262	34.3%	\$284	35.6%

The provision for deferred income taxes consisted of:

(millions)	1991	1990	1989
Excess of tax over book depreciation	\$ 15	\$ 11	\$ 37
Consolidation, store closing and acquisition reserves	(18)	18	10
Deferred gross profit on installment method sales	-	(50)	(50)
Deferred compensation	(1)	(5)	(4)
Other, net	(1)	2	1
Total	\$ (5)	\$ (24)	\$ (6)

Prepaid income taxes are classified as other current assets. These amounts were \$175 and \$128 million in 1991 and 1990, respectively, and consisted primarily of prepaid taxes related to consolidation, store closing and acquisition reserves, insurance and state income taxes. Included in deferred income taxes are deferred investment tax credits of \$10 million at February 1, 1992, and \$15 million at February 2, 1991.

Taxes other than income taxes consisted of:

(millions)	1991	1990	1989
Payroll	\$162	\$150	\$145
Real estate and personal property	78	70	62
Total	\$240	\$220	\$207

Accounts Receivable. During 1991, department store credit sales (under department store credit programs) were \$6.0 billion, or 66.3% of 1991 department store sales, compared with 66.9% in 1990 and 64.9% in 1989. An estimated 35 million customers hold credit cards under the company's various credit programs. During 1991, three department store divisions expanded their acceptance of third party credit cards. Sales made through third party credit cards in 1991, including sales of Payless ShoeSource stores, totaled \$858 million. Net accounts receivable consisted of:

(millions)	February 1, 1992	February 2, 1991
Customer accounts receivable	\$2,377	\$2,456
Other accounts receivable	115	122
Gross accounts receivable	2,492	2,578
Allowance for uncollectible accounts	(88)	(84)
Accounts receivable, net	\$2,404	\$2,494

Accounts receivable bad debt expense was \$105, \$82 and \$64 million in 1991, 1990 and 1989, respectively.

Other Assets. Major components of other assets include:

(millions)	February 1, 1992	February 2, 1991
Investment in May Centers Associates	\$176	\$135
Note receivable from May Centers, Inc.	74	74
Deferred debt expense and restricted construction funds	54	26
Other notes receivable	33	31

May Centers Associates. On August 17, 1988, the company entered into an agreement with PruSimon Associates (PruSimon), now an affiliate of The Prudential Life Insurance Company (Prudential), regarding the admission of PruSimon into a 50/50 partnership for the operation of May Centers, Inc. (MCI). The company contributed the capital stock of MCI and PruSimon contributed approximately \$550 million in cash to the partnership, May Centers Associates (MCA), which was subsequently used to purchase 14.5 million shares of May common stock. See Share Repurchases on page 24. The company's investment in the partnership and its results of operations are recorded using the equity method of accounting. Included in selling, general and administrative expenses are \$33, \$31 and \$20 million of adjusted equity earnings of MCA in 1991, 1990 and 1989, respectively. The partnership investment is included in other assets in the consolidated balance sheet and was initially valued at the company's historical carrying value of its investment in MCI. The company's initial underlying equity interest in the partnership's net assets approximated \$550 million. The difference between the company's historical basis in MCI and the underlying equity interest in the partnership at the date of formation is being amortized over a period approximating the depreciable lives of the assets of MCI.

On February 1, 1990, the company repurchased 14.5 million shares of May common stock from MCA for \$663 million. One-half of the difference between the sale price of the company's stock to MCA and the repurchase price of the company's stock from MCA, equal to \$56 million, was recorded as an increase to the company's investment in MCA. See Share Repurchases on page 24. On February 1, 1990, May Centers Associates Corporation (MCAC), a corporation owned by MCA, purchased 37 of the company's department store properties for \$367 million and leased the properties back to the company for a 25-year base term, plus renewal options. The company and MCAC completed additional sale/leaseback transactions of six department store properties amounting to \$57 million during 1991 and 23 department store properties amounting to \$210 million during 1990. The sale/leasebacks are accounted for as loans from MCAC. See Long-term Debt on page 23.

May Centers Associates – Event Subsequent to the Date of the Auditors’ Report (Unaudited). On February 28, 1992, the company and an affiliate of Prudential announced the dissolution of the MCA partnership which will take place in May 1992, after expiration of the waiting period required by the Hart-Scott-Rodino Anti-Trust Improvement Act of 1976. On dissolution, the company and an affiliate of Prudential will each receive 50% ownership of MCI and MCAC, the two entities owned by the MCA partnership. The company will recognize in 1992 a pretax gain of approximately \$200 million in connection with the distribution of the assets upon the dissolution of the partnership.

Accrued Expenses. Major components of accrued expenses include:

(millions)	February 1, 1992	February 2, 1991
Insurance costs	\$185	\$185
Salaries, wages and employee benefits	79	96
Sales and use taxes	61	57
Interest expense	60	49
Consolidations, store closings and acquisitions	59	34
Taxes other than income taxes	43	35

Short-term Debt and Lines of Credit. Short-term borrowings for the last three years were:

(dollars in millions)	1991	1990	1989
Balance outstanding at year-end	-	\$214	\$358
Average interest rate on year-end balance	-	7.4%	8.3%
Average balance outstanding	\$ 81	\$441	\$312
Average interest rate on average balance	5.7%	8.2%	9.2%
Maximum balance outstanding	\$249	\$720	\$732

The average amount of short-term borrowings outstanding, primarily commercial paper, and the respective weighted average interest rates are based on the number of days such short-term borrowings were outstanding during the year. The company has multi-year credit agreements amounting to \$1.2 billion. At February 1, 1992, there were no amounts outstanding under these agreements.

Long-term Debt. Long-term debt and capital lease obligations were:

(dollars in millions)	February 1, 1992	February 2, 1991
2.75% to 12.75% unsecured notes and sinking fund debentures due 1992-2021	\$3,210	\$2,939
MCAC sale/leasebacks	620	570
5.8% to 9.875% mortgage notes and bonds due 1992-2009	68	71
Total debt	3,898	3,580
Capital lease obligations	99	104
	3,997	3,684
Less current maturities	(79)	(119)
Total	\$3,918	\$3,565

During 1991, the company issued \$2 million of medium-term notes and \$375 million of 30-year debentures with annual interest rates ranging from 9-1/2% to 9-7/8%. The proceeds from these issuances were used to repay the company’s outstanding commercial paper and short-term indebtedness, and for general corporate purposes.

During the 1990 fourth quarter, the company issued \$425 million of debentures with interest rates ranging from 9-7/8% to 10-5/8% with due dates ranging from 2002 to 2021. Also during the 1990 fourth quarter, the company issued \$75 million of medium-term notes with interest rates ranging from 7.28% to 9.93% with maturities ranging from two to 17 years. The company used the net proceeds from these issuances to retire a portion of its outstanding commercial paper.

On February 1, 1990, the company sold 37 of its department store properties to MCAC for \$367 million and simultaneously leased back the properties. The company and MCAC completed additional sale/leaseback transactions of six department store properties amounting to \$57 million in 1991 and 23 department store properties amounting to \$210 million in 1990. As the company is a 50% partner in MCA, the accounting rules specify that the sale/leasebacks be accounted for as loans from MCAC. The base lease terms are 25 years and include fixed annual payments of \$58 million and percentage payments based upon sales above defined sales levels. The leases also provide for renewal options. See May Centers Associates on page 22.

The annual maturities of long-term debt, including sinking fund requirements, are \$79, \$102, \$64, \$283 and \$39 million for 1992 through 1996, respectively.

The net book value of property and equipment encumbered under long-term debt agreements was \$86 million at February 1, 1992. Under the most restrictive covenants of long-term debt agreements, \$1.2 billion of retained earnings at February 1, 1992, was restricted as to the payment of dividends and/or common share repurchases.

The company has guaranteed Venture’s repayment obligations up to \$28 million under Venture’s revolving credit facility and its mortgaged debt agreement until such time as Venture achieves certain financial ratios.

In connection with a 1986 real estate transaction, the company sold \$165 million of notes received from the sale of real estate and became contingently liable for up to \$42 million of the purchaser’s debt in the event of default.

Lease Obligations. The company owns approximately 50% of its department stores and leases substantially all of its Payless ShoeSource stores. Approximately 70% of real property rent expense was attributable to Payless ShoeSource stores in 1991.

Rental expense for the company's operating leases consisted of:

(millions)	1991	1990	1989
Minimum rentals	\$183	\$155	\$137
Contingent rentals based on defined sales volume	21	20	19
Real property rentals	204	175	156
Equipment rentals	11	9	11
Total	\$215	\$184	\$167

Future minimum lease payments at February 1, 1992, were as follows:

(millions)	Capital Leases	Operating Leases	Total
1992	\$ 14	\$ 180	\$ 194
1993	13	173	186
1994	13	164	177
1995	13	149	162
1996	12	134	146
After 1996	263	652	915
Minimum lease payments	328	\$1,452	\$1,780
Less - executory costs included in minimum lease payments - imputed interest component	(1)	(228)	
Present value of net minimum lease payments of which \$2 million is included in current liabilities	\$ 99		

The present value of operating leases was \$819 million at February 1, 1992.

The company entered into capital leases with MCI in 1988 for certain department store properties, resulting in initial capital lease obligations of \$74 million payable to MCI in 2023. These leased properties owned by MCI secure a 12%, \$74 million note receivable from MCI due 2023. See Other Assets and May Centers Associates on page 22.

Property under capital leases is summarized as follows:

(millions)	February 1, 1992	February 2, 1991
Cost	\$101	\$106
Accumulated amortization	(34)	(34)
Total	\$ 67	\$ 72

Other Liabilities. Other liabilities principally consist of deferred compensation liabilities of \$156 million and \$151 million at February 1, 1992, and February 2, 1991, respectively. Under the company's deferred compensation plan, eligible associates may elect to defer a portion of their compensation each year into cash and/or stock unit alternatives. The company makes payments in shares to settle obligations with most participants who defer in stock units and maintains shares in treasury sufficient to settle all outstanding stock unit obligations.

Preferred and Preference Stock. The company is authorized to issue 25,134,474 shares of preferred and preference stock. The following summarizes the authorized, issued and outstanding shares by type:

(dollars in millions, except per share)	Shares Authorized	Issued and Outstanding	
		February 1, 1992	February 2, 1991
		\$ Shares	\$ Shares
Preferred Stock, no par value	51,323	1 12,215	1 12,215
\$1.80 Preference Stock, no par value	73,273	2 29,076	2 29,076
3-3/4% Cumulative Preference Stock, \$1.00 par value per share	9,878	- -	- -
Preference Stock, \$.50 par value per share, in the aggregate, including ESOP shares	25,000,000	394 777,224	397 783,136

The Preferred Stock and the \$1.80 Preference Stock are included in other liabilities. The ESOP Preference Shares are shown separately in the consolidated balance sheet outside of shareowners' equity as the shares are redeemable by the holder or the company in certain situations.

Share Repurchases. During the 1990 third quarter, the company announced plans to repurchase up to \$250 million of its common stock through purchases on the open market from time-to-time as market conditions allow. As of February 1, 1992, the company had purchased \$71 million of its common stock pursuant to the announcement.

During the 1989 first quarter, the company completed the purchase of 12.25 million shares of its common stock at a price of \$38.50 in accordance with its "Dutch Auction" tender offer. The shares will be used to satisfy conversion requirements of the ESOP Preference Shares and for issuance under the company's employee benefit plans.

During the 1988 third quarter, the company completed the purchase of 15.5 million shares of its common stock at a price of \$38 per share in accordance with its "Dutch Auction" tender offer. Subsequent to the purchase, the company sold 14.5 million shares to MCA for \$38 per share. On February 1, 1990, the company repurchased 14.5 million shares of May stock from MCA at a price of \$45.668 per share (the weighted average of all trades of May common stock in New York Stock Exchange trading on November 20, 1989, the date of the purchase agreement), totaling \$663 million. See May Centers Associates on page 22. During the period the shares were owned by MCA, the outstanding shares used in computing the company's earnings per share and book value per share were reduced by one-half of the shares owned by MCA as a result of the company's 50% partnership interest.

Stock Option and Stock Related Plans. Under the company's common stock option plans, options are granted at the market price on the date of grant. Options to purchase may extend for a period of five or 10 years, may be exercised in installments only after stated intervals of time, and are conditioned upon continued active employment with the company, except periods following retirement, disability or death. As the option price is fixed at the market price on the date of grant, no expense is charged against earnings by the company. The changes in outstanding stock options were as follows:

(shares in thousands)	1991		1990	
	Shares	Grant Prices	Shares	Grant Prices
Outstanding at beginning of year	3,083	\$ 8-52	3,561	\$ 7-48
Granted	768	48-58	1,006	41-52
Exercised	(824)	9-52	(975)	7-46
Cancelled or expired	(318)	30-55	(509)	7-52
Outstanding at end of year	2,709	\$ 8-58	3,083	\$ 8-52
Exercisable at end of year	756	\$ 8-52	1,006	\$ 8-48
Shares available for additional grants	3,179		3,629	

Under the 1979 Restricted Stock Plan, the company is authorized to grant a maximum of 1.8 million shares to management associates. No monetary consideration is paid by associates receiving restricted stock. Restrictions lapse over periods of up to 10 years as determined at the date of grant. During 1991 and 1990, there were 101,900 and 127,000 shares of restricted stock granted, respectively.

Shareowner Rights Plan. The company has a Shareowner Rights Plan (Preferred Stock Purchase Rights) under which a right is attached to each share of the company's common stock. The rights may only become exercisable under certain circumstances involving actual or potential acquisitions of the company's common stock by a person or affiliated persons. Depending upon the circumstances, if the rights become exercisable, the holder may be entitled to purchase units of the company's preference stock, shares of the company's common stock or shares of common stock of the acquiring person. The rights will remain in existence until March 3, 1996, unless they are earlier terminated, exercised or redeemed.

Discontinued Operations. During the third quarter of 1989, the company recorded a pretax charge for loss on disposal of discontinued operations of \$56 million, \$23 million after tax (\$.17 per share). The charge included the loss on the sale of Caldor and the costs associated with the distribution of the stock of Venture to May common shareowners (spin-off), offset by Caldor and Venture estimated operating earnings through disposal dates.

The company completed the sale of the stock of Caldor in 1989 for \$500 million in cash, plus the assumption of \$52 million in debt and capital lease obligations. In addition, the company acquired an equity interest in the acquiring entity (subsequently sold in 1991 – see Consolidations, Store Closings and Sale Transactions on page 20). The spin-off of Venture was completed on November 3, 1990, with the pro rata distribution of .13 shares of Venture common stock for each share of May common stock to the May common shareowners of record at the close of business on October 15, 1990. Prior to the spin-off, Venture incurred debt and distributed the net proceeds of \$262.5 million to the company. The spin-off resulted in the distribution of approximately 16 million shares of Venture common stock. After the spin-off, the company owned no shares of Venture common stock.

The company's financial statements presented herein reflect Caldor and Venture as discontinued operations. The consolidated statement of earnings includes the results of Caldor and Venture as discontinued operations through the second quarter of 1989. The operating results subsequent to the 1989 second quarter for Caldor through its sale date, and for Venture through its spin-off date, are shown below. These results include an allocation of the company's consolidated interest expense of \$3 and \$21 million in 1990 and 1989, respectively.

(millions, except per share)	1990	1989
Revenues	\$941	\$2,441
Pretax earnings	\$ 13	\$ 64
Net earnings	\$ 8	\$ 39
Earnings per share	\$.06	\$.28

Quarterly Results (Unaudited). Quarterly results are determined in accordance with the annual accounting policies and include certain items based upon estimates for the entire year. Summarized quarterly results for the last two years were as follows:

(millions, except per share)					
	1991				
Quarter	First	Second	Third	Fourth	Year
Revenues	\$2,313	\$2,379	\$2,561	\$3,362	\$10,615
Cost of sales	\$1,600	\$1,664	\$1,792	\$2,283	\$7,339
Net Earnings	\$ 76	\$ 82	\$ 91	\$ 266	\$ 515
Primary Earnings Per Share	\$.58	\$.62	\$.70	\$ 2.12	\$ 4.02
Fully Diluted Earnings Per Share	\$.56	\$.61	\$.69	\$ 2.01	\$ 3.87

(millions, except per share)					
	1990				
Quarter	First	Second	Third	Fourth	Year
Revenues	\$2,197	\$2,213	\$2,372	\$3,284	\$10,066
Cost of sales	\$1,514	\$1,556	\$1,658	\$2,250	\$6,978
Net Earnings	\$ 80	\$ 78	\$ 90	\$ 252	\$ 500
Primary Earnings Per Share	\$.60	\$.59	\$.69	\$ 2.00	\$ 3.88
Fully Diluted Earnings Per Share	\$.58	\$.58	\$.67	\$ 1.91	\$ 3.74

There are variables and uncertainties in the factors used to estimate the annual LIFO provision on an interim basis. The following unaudited supplementary information shows the pro forma per share impact of LIFO had the final variables and factors been known at the beginning of each year.

Quarter	1991		1990	
	Pro Forma	As Reported	Pro Forma	As Reported
First	\$.02	\$.04	\$.04	\$.04
Second	.03	.03	.04	.03
Third	.03	.02	.04	.03
Fourth	.04	.03	.06	.08
Year	\$.12	\$.12	\$.18	\$.18

Notes To Six Year Summary by Business Segment.

Net retail sales exclude sales of sold and discontinued divisions and nonreplaced closed stores in all periods. The revenues shown below include all sales of all stores operating during the period.

(millions)	1991	1990	1989	1988	1987	1986
Revenues:						
Department stores	\$ 9,067	\$ 8,700	\$8,356	\$7,742	\$6,415	\$6,503
Payless ShoeSource	1,548	1,366	1,246	1,132	1,065	934
Total	\$10,615	\$10,066	\$9,602	\$8,874	\$7,480	\$7,437

Revenues for 1989 include 53 weeks.

Operating earnings represent LIFO earnings before federal and state income taxes, net interest expense and corporate expense, and exclude sold divisions and unusual items. Goodwill, the fair value adjustment of property, equipment and leases, and the related amortization and depreciation of such items related to the purchase of the Thalhimers, Foley's and Filene's department store companies have been included in corporate expense and total assets. In addition, store closing costs, consolidation costs and real estate gains have been included in corporate expense. Had these items been included in the operating segments, operating earnings and total assets for department stores, real estate and corporate would have been:

(millions)	1991	1990	1989	1988	1987	1986
Operating Earnings:						
Department stores	\$ 912	\$ 907	\$ 941	\$ 711	\$ 597	\$ 513
Real estate	49	40	35	73	33	133
Corporate expense	(33)	(66)	(88)	(34)	(31)	(121)
Total Assets:						
Department stores	\$7,297	\$7,193	\$6,466	\$6,004	\$4,011	\$3,904
Corporate and real estate	753	524	822	1,128	1,258	1,521

Total assets for corporate consist principally of cash, cash equivalents, goodwill and purchase accounting fair value adjustments, the investment in MCA and the net assets of discontinued operations.

Net assets represent total assets of continuing operations plus the present value of operating leases, minus current liabilities excluding notes payable and the current portion of long-term debt.

Return on net assets by segment represents operating earnings plus the interest component of operating leases, divided by net assets at the beginning of the year. The 1988 amounts for department stores and total are based upon beginning net assets adjusted for the May 1, 1988, acquisition of Foley's and Filene's.

Capital expenditures for department stores exclude amounts related to the acquisitions of Thalhimers in 1990 and Foley's and Filene's in 1988.

Six Year Summary by Business Segment

The May Department Stores
Company and Subsidiaries

(dollars in millions)	1991	1990	1989	1988	1987	1986
Net Retail Sales						
Department stores	\$ 8,854	\$8,491	\$7,984	\$7,073	\$5,517	\$5,088
Payless ShoeSource	1,548	1,366	1,230	1,132	1,065	934
Total	\$10,402	\$9,857	\$9,214	\$8,205	\$6,582	\$6,022
Operating Earnings						
Department stores	\$ 963	\$ 915	\$ 945	\$ 792	\$ 604	\$ 540
Payless ShoeSource	184	161	144	138	132	138
Total	1,147	1,076	1,089	930	736	678
Real estate	32	33	20	30	33	29
Corporate expense	(67)	(67)	(77)	(85)	(71)	(87)
Interest expense, net	(316)	(280)	(233)	(198)	(80)	(92)
Sold divisions and unusual items	-	-	-	13	33	43
Earnings from continuing operations before income taxes	\$ 796	\$ 762	\$ 799	\$ 690	\$ 651	\$ 571
LIFO Charge (Credit)						
Department stores	\$ 26	\$ 39	\$ (22)	\$ (3)	\$ 8	\$ 4
Operating Earnings as % of Net Retail Sales						
Department stores	10.9%	10.6%	11.5%	10.6%	10.0%	9.1%
Payless ShoeSource	11.9	11.7	11.7	12.2	12.4	14.8
Total Assets						
Department stores	\$ 6,498	\$6,389	\$5,752	\$5,307	\$4,011	\$3,904
Payless ShoeSource	678	519	442	400	383	331
Corporate and real estate	1,552	1,328	1,536	1,825	1,258	1,521
Total	\$ 8,728	\$8,236	\$7,730	\$7,532	\$5,652	\$5,756
Net Assets						
Department stores	\$ 5,527	\$5,499	\$4,716	\$4,348	\$3,414	\$3,236
Payless ShoeSource	1,069	851	749	664	614	529
Corporate and real estate	1,507	1,298	1,170	1,120	478	782
Total	\$ 8,103	\$7,648	\$6,635	\$6,132	\$4,506	\$4,547
Return on Net Assets						
Department stores	18.0%	20.0%	22.3%	19.6%	20.0%	20.5%
Payless ShoeSource	29.0	28.9	28.9	29.3	31.1	38.0
Total	16.0%	17.2%	18.0%	17.5%	17.4%	17.7%
Capital Expenditures						
Department stores	\$ 361	\$ 450	\$ 427	\$ 275	\$ 314	\$ 338
Payless ShoeSource	146	82	51	45	71	61
Corporate and real estate	5	16	44	17	39	36
Total	\$ 512	\$ 548	\$ 522	\$ 337	\$ 424	\$ 435
Depreciation and Amortization						
Department stores	\$ 250	\$ 231	\$ 208	\$ 187	\$ 148	\$ 147
Payless ShoeSource	46	40	36	32	27	21
Corporate and real estate	23	23	25	47	37	41
Total	\$ 319	\$ 294	\$ 269	\$ 266	\$ 212	\$ 209

Net retail sales for 1989 are shown above on a calendar-adjusted 52-week basis for comparability.

See Notes to Six Year Summary by Business Segment on page 26.

Eleven Year Financial Summary

The May Department Stores
Company and Subsidiaries

(dollars in millions, except per share)	1991	1990	1989
Net Retail Sales	\$10,402	\$ 9,857	\$9,334
Operations			
Revenues	\$10,615	\$10,066	\$9,602
Cost of sales	7,339	6,978	6,581
Selling, general and administrative expenses	2,164	2,046	1,989
Interest expense, net	316	280	233
Earnings from continuing operations before income taxes	796	762	799
Income taxes	281	262	284
Net earnings from continuing operations	515	500	515
Net earnings	515	500	498
Dividends on common stock	198	191	186
Capital expenditures	512	548	522
Depreciation and amortization	319	294	269
Cash flow from operations*	834	794	784
Per Share			
Net earnings from continuing operations**	\$ 3.87	\$ 3.74	\$ 3.64
Net earnings**	3.87	3.74	3.52
Dividends paid	1.61	1.54	1.39
Annual dividend rate at year-end	1.62	1.58	1.42
Book value	22.52	20.08	18.65
Market price – high	60.38	59.13	52.63
– low	45.25	37.38	34.63
– average of high and low	52.81	48.25	43.63
Financial Position			
Customer accounts receivable	\$ 2,377	\$ 2,456	\$2,223
Merchandise inventories	1,741	1,628	1,491
Working capital	3,052	2,635	2,059
Property and equipment, net	3,151	2,985	2,666
Long-term debt, preferred and preference stock	4,315	3,965	3,406
Shareowners' equity	2,781	2,467	2,319
Total assets	8,728	8,236	7,730
Statistics			
Percent of revenues:			
Net earnings from continuing operations	4.9%	5.0%	5.4%
Cash flow from operations*	7.9	7.9	8.2
Return on net assets	16.0	17.2	18.0
Return on equity	20.7	21.8	18.0
Stores Open at Year-End			
Department stores	318	324	288
Payless ShoeSource	3,295	2,967	2,746
Average Shares Outstanding and Equivalents			
Primary	124.0	124.5	133.6
Fully Diluted	132.1	132.4	140.0

All years included 52 weeks, except 1989 and 1984 which included 53 weeks.

* Cash flow from operations represents net earnings and depreciation/amortization from continuing operations.

** Amounts are on a fully diluted basis. Primary earnings per share were \$.15 greater in 1991, \$.14 greater in 1990, \$.11 greater in 1989 and \$.01 greater in each of 1988, 1986 and 1985.

1988	1987	1986	1985	1984	1983	1982	1981
\$8,205	\$6,582	\$6,022	\$5,405	\$5,004	\$4,556	\$4,024	\$3,771
\$8,874	\$7,480	\$7,437	\$6,825	\$6,361	\$5,815	\$5,205	\$4,913
6,098	5,186	5,202	4,775	4,399	4,033	3,650	3,448
1,888	1,563	1,572	1,436	1,363	1,240	1,111	1,061
198	80	92	91	88	81	94	76
690	651	571	523	511	461	350	328
242	258	238	237	234	210	160	152
448	393	333	286	277	251	190	176
534	444	381	347	327	297	217	192
184	170	131	124	106	89	79	72
337	424	435	400	266	198	210	204
266	212	209	181	160	151	133	116
714	605	542	467	437	402	323	292
\$ 3.04	\$ 2.56	\$ 2.10	\$ 1.82	\$ 1.79	\$ 1.64	\$ 1.27	\$ 1.21
3.62	2.89	2.41	2.21	2.11	1.94	1.45	1.32
1.25	1.12	1.02	.92	.78	.65	.60	.56
1.28	1.14	1.04	.94	.86	.67	.61	.57
21.50	18.26	17.01	15.73	14.50	13.21	11.82	11.05
40.00	50.88	44.13	32.50	24.19	21.00	16.42	10.67
28.75	22.25	31.88	21.00	15.04	14.84	7.67	7.75
34.38	36.56	38.00	26.75	19.62	17.92	12.05	9.21
\$2,099	\$1,590	\$1,516	\$1,578	\$1,514	\$1,379	\$1,284	\$1,202
1,318	1,044	999	1,035	933	787	703	698
2,094	1,821	1,921	1,529	1,354	1,338	1,186	1,046
2,506	2,037	1,917	1,846	1,496	1,389	1,323	1,257
2,404	1,111	1,153	1,071	778	915	940	820
3,050	2,723	2,595	2,421	2,233	2,041	1,756	1,647
7,532	5,652	5,756	5,221	4,599	4,320	3,896	3,770
5.1%	5.3%	4.5%	4.2%	4.4%	4.3%	3.7%	3.6%
8.1	8.1	7.3	6.8	6.9	6.9	6.2	5.9
17.5	17.4	17.7	18.8	18.9	18.3	16.4	15.7
18.6	17.0	15.7	15.5	16.1	17.0	13.2	13.7
297	258	286	301	303	300	309	309
2,602	2,436	2,210	1,867	1,662	1,389	1,279	1,089
147.4	153.2	156.6	155.6	155.4	153.9	150.4	145.8
147.7	153.2	157.4	156.0	155.8	154.2	150.8	146.1

Management's Responsibility and Report of Independent Public Accountants

Report of Management. Management of May is responsible for the preparation, integrity and objectivity of the financial information included in this annual report. The financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis. The financial statements include amounts based on certain estimates and judgments of currently available information and management's view of current conditions and circumstances. Management uses the services of specialists within and outside the company in making such estimates and judgments.

Management has established and maintains a system of accounting and controls to provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition and that accounting records provide a reliable basis for the preparation of financial statements and to ensure that such financial statements are not misstated due to material fraud or error. The system of controls includes the careful selection of associates, a division of responsibilities and the communication and application of formal policies and procedures that are consistent with high standards of accounting and administrative practices. An important element of this system is a comprehensive internal audit program. Management continually reviews, modifies and improves its systems of accounting and controls in response to changes in business conditions and operations and to recommendations in the reports prepared by the independent public accountants and internal auditors.

Management believes that it is essential for the company to conduct its business affairs in accordance with the highest ethical standards and in conformity with the law. This standard is described in the company's policies on corporate conduct which are publicized throughout the company.

Audit Committee of the Board of Directors. The Board of Directors, through the activities of its Audit Committee, participates in the reporting of financial information by the company. The committee meets regularly with management, the internal auditors and representatives of the company's independent public accountants. The committee met three times during 1991 and reviewed the scope, timing and fees for the annual audit and the results of audit examinations completed by the internal auditors and independent public accountants, including the recommendations to improve certain internal controls and the follow-up reports prepared by management. Representatives of the independent public accountants and the internal auditors have free access to the committee and the Board of Directors and attend each meeting of the committee.

The members of the Audit Committee are Richard R. Shinn (chairman), Edward H. Meyer, Russell E. Palmer, Robert D. Storey, Murray L. Weidenbaum and Edward E. Whitacre, Jr.

The Audit Committee reports the results of its activities to the full Board of Directors.

Report of Independent Public Accountants.

To the Board of Directors and Shareowners of
The May Department Stores Company:

We have audited the accompanying consolidated balance sheet of The May Department Stores Company (a New York corporation) and subsidiaries as of February 1, 1992, and February 2, 1991, and the related consolidated statements of earnings, shareowners' equity and cash flows for each of the three fiscal years in the period ended February 1, 1992. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The May Department Stores Company and subsidiaries as of February 1, 1992, and February 2, 1991, and the results of their operations and their cash flows for each of the three fiscal years in the period ended February 1, 1992, in conformity with generally accepted accounting principles.

Arthur Andersen & Co.
1010 Market Street
St. Louis, Missouri 63101

February 24, 1992

Board of Directors



Murray L. Weidenbaum ^{1, 4}
Director of the Center for the
Study of American Business
and Mallinckrodt Distinguished
University Professor at
Washington University

Andrall E. Pearson ^{2, 3, 4*}
Class of 1958 Professor of
Business Administration,
Harvard University
Graduate School of Business
Administration

Richard R. Shinn ^{1*, 2, 3, 5}
Retired Chairman and Chief
Executive Officer of The
Metropolitan Life
Insurance Company

Jerome T. Loeb ⁴
Vice Chairman
and Chief Financial Officer



Lawrence E. Honig
Vice Chairman

William P. Stiritz ^{2, 4, 5*}
Chairman of the Board and
Chief Executive Officer
of Ralston Purina Company

Edward H. Meyer ^{1, 3*}
Chairman of the Board, President
and Chief Executive Officer of
Grey Advertising Inc.

David C. Farrell ^{2*, 5}
Chairman of the Board
and Chief Executive Officer

Helene L. Kaplan ^{3, 4, 5}
Of Counsel, Skadden, Arps,
Slate, Meagher & Flom



Thomas A. Hays ^{2, 4}
President

Richard L. Battram
Vice Chairman

Russell E. Palmer ^{1, 3}
Chairman and Chief Executive
Officer of The Palmer Group

Robert D. Storey ^{1, 5}
Partner in McDonald, Hopkins,
Burke & Haber

Edward E. Whitacre, Jr. ^{3, 4}
Chairman and Chief Executive
Officer of Southwestern Bell
Corporation

¹ Audit Committee

² Executive Committee

³ Executive Compensation and
Development Committee

⁴ Finance Committee

⁵ Nominating Committee

* Committee Chairman

Company Management

Lord & Taylor, New York City
Marshall Hilsberg, Chairman and
Chief Executive Officer
Ronald F. Tanler, President

Hecht's, Washington, D.C.
Irwin Zazulia, President and
Chief Executive Officer
Thomas D. Fingleton, Chairman

Foley's, Houston
Michael Steinberg, President and
Chief Executive Officer
Donald R. Andrus, Chairman

May Company, California
David P. Mullen, President and
Chief Executive Officer
Gerald A. Sampson, Chairman

Famous-Barr, St. Louis
Anthony J. Torcasio, President and
Chief Executive Officer
James A. Hageman, Chairman

Kaufmann's, Pittsburgh
William T. Tobin, President and
Chief Executive Officer
Clarence O. Reynolds, Chairman

Robinson's, Los Angeles
Robert L. Mettler, President and
Chief Executive Officer
Kenneth L. Wilkerson, Chairman

Filene's, Boston
Heywood L. Wilansky, President and
Chief Executive Officer
Joseph M. Melvin, Chairman

G. Fox, Hartford
Eugene S. Kahn, President and
Chief Executive Officer
John L. Dunham, Chairman

May Company, Ohio
Thomas J. Hogan, President and
Chief Executive Officer
Steven J. Douglass, Chairman

May D&F, Denver
Joseph S. Davis, President and
Chief Executive Officer
John T. Carlen, Chairman

Meier & Frank, Portland, Ore.
Judith K. Hofer, President and
Chief Executive Officer
J. William Blanford, Chairman

Payless ShoeSource, Topeka
Dale W. Hilpert, Chairman and
Chief Executive Officer
Larry L. Mickley, President

**May Merchandising Company,
New York City**
Kenneth Kolker,
Chief Executive Officer
Martin Bloom, President
Kenneth B. Winfield, Jr., Chairman

**The May Design and
Construction Company, St. Louis**
John G. Rutenis, President
John F. Strong, Chairman

Corporate Management

David C. Farrell
Chairman of the Board and
Chief Executive Officer

Thomas A. Hays
President

Richard L. Battram
Vice Chairman

Lawrence E. Honig
Vice Chairman

Jerome T. Loeb
Vice Chairman
and Chief Financial Officer

Executive Vice Presidents
Louis J. Garr, Jr.
General Counsel

R. Dean Wolfe
Real Estate

Senior Vice Presidents
John F. Danahy
Data Processing

William D. Edkins
Strategic Planning

Douglas J. Giles
Human Resources

James F. Harner
Customer Service and Operations

Lonny J. Jay
Planning and Reporting

Jan R. Kniffen
Treasurer

J. Kent McHose
Division Services

Vice Presidents
James Abrams
Corporate Communications
James R. Bodemuller
Merchandise Information Systems

Richard A. Brickson
Secretary and Senior Counsel

Richard V. Clausing
Accounting and Reporting

Thomas M. Etzkorn
Compensation and Benefits

William M. Goddard
Risk Management and Insurance

Robert L. Grimm
Executive Development

Frank D. Gunter
Taxes

Laurence M. Hellman
Merchandise and Consumer
Research

Stephen J. Hinderberger
Capital Planning and Analysis

Timothy W. Plunkett
Executive Recruiting

Joel G. Rebmann
Credit

Barry S. Silver
Audit

Henry A. Wagner
EDP Systems Development

Mark J. Weikel
Planning and Analysis

Frank J. Williams, Jr.
Public Affairs and Senior Counsel

Shareowner Information

Corporate Office

The May Department Stores Company
611 Olive Street
St. Louis, Mo. 63101-1799
(314) 342-6300

1992 Annual Meeting

The Annual Meeting of Shareowners will be held at 10 a.m., Friday, May 29, in the ninth floor auditorium of the downtown Famous-Barr store, 601 Olive Street, St. Louis, Mo.

Information Requests

Copies of the company's annual report to shareowners, the Form 10-K annual report to the Securities and Exchange Commission, and the Form 10-Q quarterly reports to the SEC are available free of charge to shareowners upon request to:

Corporate Communications
The May Department Stores Company
611 Olive Street
St. Louis, Mo. 63101-1799

A summary of charitable contributions (including individual major contributions) made by The May Department Stores Company Foundation is available upon request to the address listed above.

Common Stock

Shares of The May Department Stores Company common stock are listed and traded on the New York Stock Exchange (trading symbol MA). The stock is quoted as "MayDS" in daily newspapers.

Shareowner Inquiries

For assistance concerning dividend payments and shareowner records, including change of address, please contact our transfer agent and registrar:

The Bank of New York
P.O. Box 11258
Church Street Station
New York, N.Y. 10286-1258
(800) 524-4458

Security analysts, investment professionals and shareowners may direct their inquiries to:

Mr. Jan R. Kniffen
Senior Vice President and Treasurer
The May Department Stores Company
611 Olive Street
St. Louis, Mo. 63101-1799
(314) 342-6413

